

Retirement Plan Trends

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Public Sector Retirement Plans

- 401(a) qualified governmental plans
 - Mandatory participation
 - Shared financing
 - Pooled investments

- MERS partners with municipalities, providing three different types of 401(a) plans



Public Sector Retirement Plans

- Plan design differences, based on employer (ER) and employee (ee) risk
 - Investment Risk
 - Longevity Risk
 - Inflation Risk

Defined Benefit

- Lifetime benefit that does not fluctuate with investments gains or losses
- Employer and Employee can contribute

Hybrid

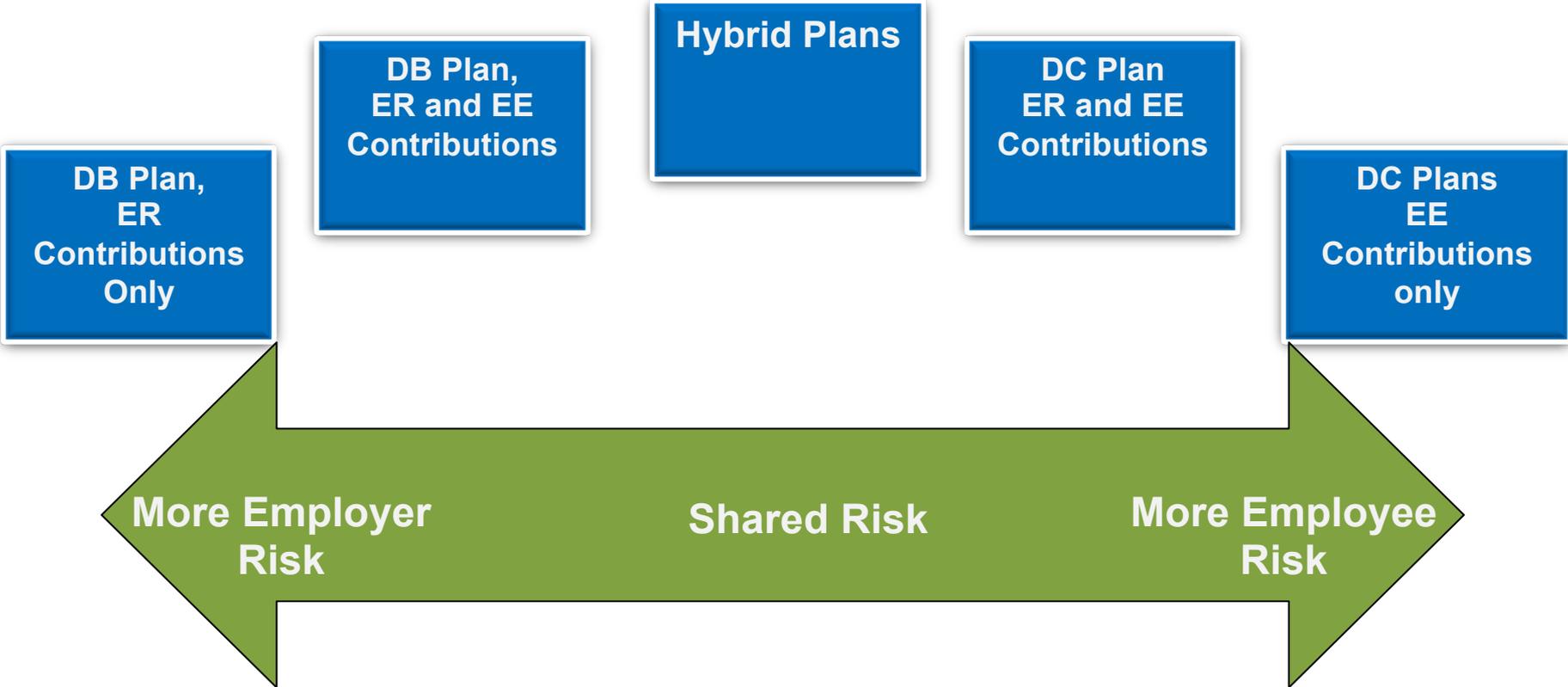
- DB-DC plan
- Benefit and costs varies
- Employer and Employee can contribute

Defined Contribution

- Benefit based on account balance
- Employer and Employee can contribute a fixed amount



Retirement Plan Risks



MERS Defined Benefit Plan



MERS Defined Benefit Plan

- Traditional pension plan that provides retirees a lifetime monthly benefit
- Defined Benefit Formula:

Final Average
Compensation

X

Service Credit

X

Benefit
Multiplier

=

\$ Annual Benefit



Defined Benefit Formula

Final Average Compensation (FAC)

- Highest consecutive wages during a period of time (minimum of 36 months)
- Compensation may include regular salary, longevity, vacation, overtime, and paid time off (PTO) earned within the FAC period

Final Average
Compensation

Service Credit

X

Benefit
Multiplier

=

\$ Annual Benefit



Defined Benefit Formula

Service Credit

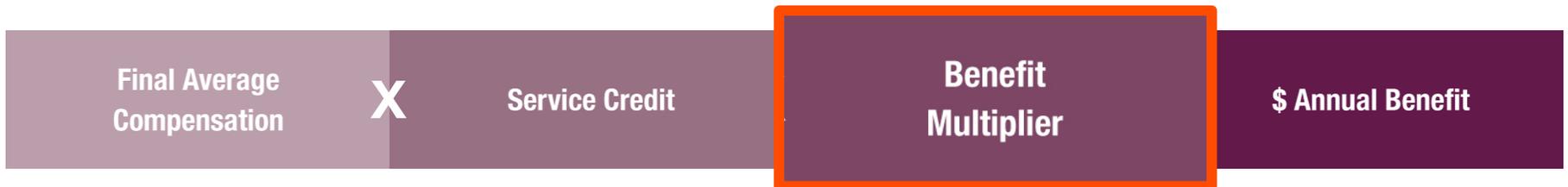
- Earned for each month of qualified work that meets employer's requirements
 - Typically, this is 10, 8-hour days
- Service credit is reported to MERS through MERS Employer Portal
- Employees can view service credit history through myMERS



Defined Benefit Formula

Benefit Multiplier

- A benefit multiplier is a specific percentage adopted by the employer for each division.
- Multipliers range from 1.00% to 2.50%
- Benefit maximum of 80% of Final Average Compensation for multipliers at 2.25% or more



Defined Benefit Eligibility

Vesting

Vesting is the required amount of service needed to be eligible for a retirement benefit.

- Options range from 5 to 10 years



Retirement Eligibility

- Eligible to begin receiving benefits once age and service requirements are met:
 - Normal retirement age is 60 and vested
- Early Retirement Options Available for adoption



Advantages and Considerations

Advantages	Considerations
Rewards employee longevity	Limited portability options
Benefits do not decrease with investment losses	Benefits do not increase with investment gains
Investment returns reduce long-term contributions	Employer may have variable contributions
Cost of Living Adjustments options are available	Cost of Living Adjustments must be adopted
Service credit purchases available	Employers must approve all service credit purchases
Disability and death provisions provide additional security	Higher incidence of disability and death rates can lead to more UAL



Trends in Defined Benefit Plans

- Municipalities continue to look at ways to improve funding in Defined Benefit Plans
 - Cost sharing with employees
 - Paying more than the Annual Required Contribution (ARC)
 - Linking existing divisions to lower Defined Benefit or Hybrid for new hires
 - Bridging to a lower multiplier for existing employees' future service
 - Pension obligation bonding



Ways to Reduce Liability

Trends at MERS

Strategy	Description	Trend				Impact
		2013	2014 YTD	'13 Q3	'14 Q3	
Cost Sharing for Existing Employees	Employees contribute to help fund the overall cost of the plan	280	83	122	11	<ul style="list-style-type: none"> Reduces the employer cost, but does not affect total cost or the plan's unfunded liability
Lower Benefit to New Hires	New hires receive a lower tier of Defined Benefit provisions	53	25	14	1	<ul style="list-style-type: none"> Existing employees are not affected Reduces the liability for new hires
Bridged Benefits for Existing Employees	Benefits are offered in parts to existing employees Multiplier is then lowered on a going-forward basis	19	19	4	1	<ul style="list-style-type: none"> Leaves earned benefits unchanged Reduces the liability for new hires and existing employees
Hybrid for New Hires	New hires receive a Hybrid Plan	31	31	8	6	<ul style="list-style-type: none"> Existing employees are not affected Reduces liability for new hires
Defined Contribution for New Hires	New hires receive a Defined Contribution Plan	45	15	15	6	<ul style="list-style-type: none"> Existing employees are not affected Eliminates liability for new hires

MERS Defined Contribution Plan



401(a) and 401(k)

Employers and participants may confuse 401(a) and 401(k). Here are some key differences between 401(a) plans and 401(k) plans:

MERS 401(a) Defined Contribution	401(k)
Participation is mandatory	Participant can choose whether to participate or not
Contributions may include funds from employer, employee or both, however: <ul style="list-style-type: none">• Employer may offer a contribution range in which the employee makes a one-time choice	Contributions may include funds from employer, employee or both, however: <ul style="list-style-type: none">• Employer may offer a contribution range in which the employee can change over time
Not subject to ERISA laws but subject to other state and federal laws	Subject to ERISA laws
2014 maximum contribution limit \$52,000	2014 maximum contribution limit \$17,500



MERS Defined Contribution Plan

- MERS Defined Contribution Plan is a 401(a) Money Purchase Plan
- Contributions are made to an account for the exclusive benefit of the participant and beneficiaries
- The value of the account is based on contributions and investment performance over time
- Unlike a 401(k) plan there are some unique provisions of a 401(a) plan including:
 - All eligible employees must participate in the plan
 - Contribution structure determined by employer
 - Cannot change contributions to the plan once enrolled



How the Plan Works - Contributions

- Many plans have employer and employee contributions
- Vesting is the amount of service required to be eligible for employer contributions
 - Employee contributions are always 100% vested
 - Vesting is determined by the employer and typically based on a schedule
- Contributions are pre-tax
 - Taxes are paid at the time account is used

Shorter Vesting Options

- Today, employees are spending less time at a job than in the past
- Compared to defined benefit plans, vesting for defined contribution is often shorter
- More attractive to new and younger employees



Importance of Plan Fiduciary

With recent high-profile class-action suits alleging violation of fiduciary duty—and with the potential for personal liability—plan sponsors universally want to manage fiduciary risks

MERS assumes fiduciary role



Investment Menu Oversight

- The MERS Retirement Board and Office of Investments actively select and monitor fund lineup, investment managers, and index funds
 - Experienced team overseeing the investment choices:
 - Ensures quality investment options are offered
 - Provides access to investment professionals that specifically serve institutional investors like MERS
 - Has the ability to negotiate fees that individuals would not be able to negotiate on their own due to the size of the asset pool
- Examples of criteria used to guide decisions:
 - Comparative risk-adjusted investment performance against peers and benchmark
 - Consistent investment style
 - Stable investment management team
 - Material legal, regulatory, or reputation changes



Design of the MERS Investment Menu

The MERS Investment Menu was strategically designed for you by grouping investment options into logical categories

- Investors of all types, regardless of experience, can easily create portfolios to meet their investment style

MERS Guiding Principles

- Keep it simple: reduce duplication of investment styles and asset classes
- Logical Ordering: align investments, not by investment type (stocks, bonds, etc.), but rather on expected level of monitoring and rebalancing over time
- Bigger is not always better: a more streamlined investment menu can help with decision making because a high number of options can be overwhelming



Advantages and Considerations

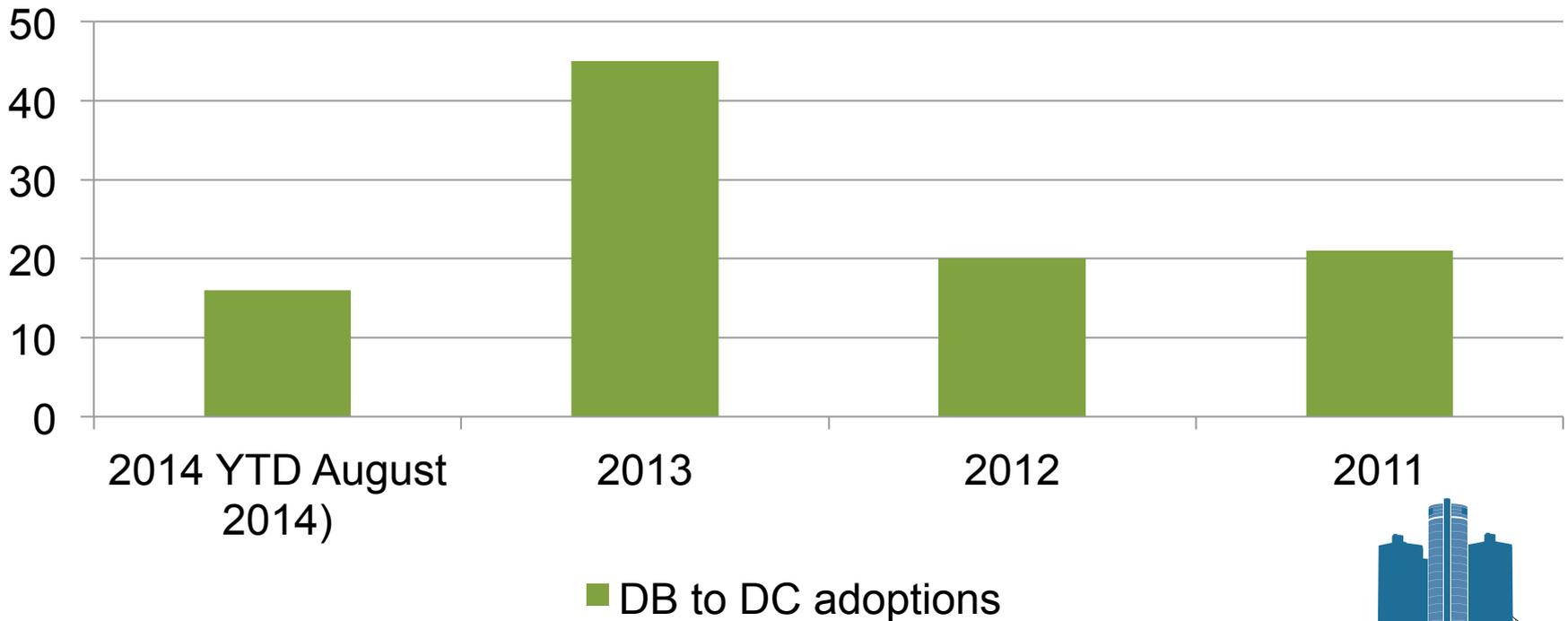
Advantages	Considerations
Employees understand the account balance concept	Employees require investment education
No investment risk for the employer	Employer does not benefit from investment gains
Employer has a constant contribution	Employee may have variable retirement benefit
Employees have portability options	No monthly death or disability benefits
Employer will not have unfunded accrued liability	



Trends in Defined Contribution

Moving from a Defined Benefit to a Defined Contribution Plan

Defined Benefit (DB) to Defined Contribution (DC) Adoptions



Trending: Moving from Defined Benefit to Defined Contribution

- Costs can be more predictable
- Eliminates future liability for new hires
- Investment risk is with the employee
- If the closed Defined Benefit Plan has Unfunded Accrued Liability (UAL), accelerated payments are required



Trending: Combining Defined Contribution With a 457 Programs

Offers quality benefit for employees that provides flexibility and options

- Provides greater contribution flexibility for both employers and employees
- Investment menu choices
- Consider auto-enrollment in MERS 457
 - 47% of plan sponsors that offer auto-enrollment have seen average participant deferral rate increase since adoption of auto-enrollment¹
 - 50% of plan sponsors who offer auto-enrollment report that fewer than 5% of eligible participants opt out²
- Auto-escalation option in MERS 457
 - Participants who are auto-enrolled tend to stay in their original deferral, which often is too low
 - Automatically increases contribution over time

¹2010 Deloitte Annual 401K survey of plan sponsors

²Towers Watson 2010 Survey of Defined Contribution Plan sponsors



MERS Hybrid Plan



MERS Hybrid Plan

A combination of both Defined Benefit and Defined Contribution plans:

- Stability and security of a Defined Benefit Plan funded by employer
- Flexibility and investment choice of a Defined Contribution Plan funded by the employer and/or employee
- Defined Benefit portion provides lower cost, streamlined options to limit future UAL
- Once Hybrid is adopted, the provisions of the Defined Benefit portion of the plan cannot be changed



How it Works

Part I – Defined Benefit

Final Average Compensation	X	Service Credit	X	Benefit Multiplier	=	\$ Annual Benefit
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Part II – Defined Contribution

Employer Contributions	+	Employee Contributions	+	Earnings or Losses in the Market	-	Fees	=	\$ Account Balance
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+

\$ Total Retirement Benefit



Hybrid Part I - Defined Benefit Formula

Final Average
Compensation

X

Service Credit

X

Benefit
Multiplier

=

\$ Annual Benefit

Final Average Compensation Highest consecutive 36 months of wages during service history

Service Credit

Earned for each month of qualified work that meets employer's requirements

Benefit Multiplier

A specific percentage adopted by the employer for each division

- Generally ranges from 1.0% to 1.5% unless opting out of Social Security



Understanding Hybrid Part II - Defined Contribution Formula

Contributions

- Determined by employer or collectively bargained
- Can include employer and employee contributions

Vesting

- Immediate
- Up to 5 year cliff
- Up to 6 year graded

Investments

- Participants have access to MERS Investment Menu
- Participants choose investment options based on goals and objectives



Advantages and Considerations

Advantages	Considerations
Offers stability of traditional Defined Benefit Plan	Available Hybrid Plan Part I multipliers lower than MERS Defined Benefit Options
Portability	Employees may lose Hybrid Plan Part I if they leave their employment before vesting
Hybrid Plan Part II offers investment choices of a Defined Contribution Plan	Employees are responsible for selecting and monitoring investments
Gives employees a wide variety of retirement tools	Once adopted, Hybrid provisions can't be changed



Trends in Hybrid Plans

- Implementation for new hires
 - Provides a balanced retirement plan to new hires
- If moving to Hybrid from a Defined Benefit Plan, there is no acceleration of the Unfunded Accrued Liability (UAL)



Providing Education for Employees

MERS Resources and Education Opportunities

- Investment Menu Design
- Pizza & Planning
- On-Site education seminar
- Online account access through *myMERS*
- Retirement Readiness Initiative

WELCOME TO YOUR RETIREMENT READINESS SNAPSHOT REPORT!

MERS
Municipal Employees' Retirement System

This Retirement Readiness Snapshot report can help you decide whether you'll have enough income in retirement and how your health savings compares to the expected national average for health care expenses at your expected retirement date.

YOUR RETIREMENT INCOME SCORE: 54% (RECOMMENDED - 80% or HIGHER)*

you're not on target to meet your retirement income goal.

YOUR RETIREMENT INCOME SUMMARY:

Your projected monthly retirement income sources:

MERS	\$1,400.00
MERS OF MICHIGAN 457 ALL EMPLOYEES	\$1,000.00
Social Security	\$1,000.00
PROJECTED monthly retirement income total	\$3,400.00
TARGET monthly retirement income	\$4,000.00
Monthly retirement income GAP	\$600.00

*See page 2 for the assumptions and methodology used in this analysis.

- MERS, \$1,400.00 (26%)
- MERS OF MICHIGAN 457 ALL EMPLOYEES, \$1,000.00 (29%)
- Social Security, \$1,000.00 (44%)
- Retirement Income Gap**, \$600.00 (7%)

**See page 2 for information on how to close your retirement gap.



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